

**CITY OF KENNEWICK**  
**Benton County, Washington**  
**Special Audit**  
**January 1, 1995 Through September 30, 1995**

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**Schedule Of Findings**

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1. Affordable Housing Program Guidelines Were Exceeded And Accounting Records Were Falsified

Limitations of the Community Development Block Grant (CDBG) program were exceeded by the program manager. In addition, accounting records were falsified to conceal these activities.

The City of Kennewick operates an affordable housing program which provides funds to eligible low and moderate income citizens towards the purchase of a home. However, the program manager allowed the program to cover the costs of additional improvements which were not included in the sale prices of the homes. These additional costs were clearly beyond the scope of the affordable housing program. There does not appear to be any other city-operated CDBG program that provides funding for these improvements.

Our review of affordable housing program transactions revealed the following irregularities. Two properties received funding for landscaping materials, while another property received an upgrade to a driveway extension. In addition, one of the properties that received landscaping costs also included costs for items used on a neighboring property which was ineligible for this CDBG program. The program manager altered invoices, totaling \$1,145.37, to conceal the amount of service provided to this neighboring property and prepared purchase requisitions which indicated that all of the items purchased were to be used on the eligible property. No public purpose could be identified for the expenditures on this ineligible property.

In addition, the city's records did not contain adequate information to determine if home buyers had provided the required 50 percent of the down payment for the purchase of the home.

24 CFR 570.210 (n) states:

Home ownership assistance. CDBG funds may be used to provide direct homeownership assistance among low- and moderate-income persons to-

- (1) Subsidize interest rates and mortgage principals amounts for low- and moderate-income homebuyers;
- (2) Finance the acquisition, by low- and moderate-income homebuyers, of housing that is occupied by the homebuyers;
- (3) Acquire guarantees for mortgage financing obtained by low- and moderate-income homebuyers from private lenders (except that CDBG funds may not be used to guarantee such mortgage financing directly, and grantees may not provide such guarantees directly);
- (4) Provide up to 50 percent of any down payment required from a low- or moderate-income homebuyer; or
- (5) Pay reasonable closing costs

(normally associated with the purchase of a home) incurred by a low- or moderate-income home buyer.

RCW 9A.60.020 states:

Forgery.

(1) A person is guilty of forgery if, with intent, to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate, or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

These inappropriate transactions were allowed to occur and remain undetected due to an inadequate segregation of duties within the HUD CDBG department. The program manager was solely responsible for all aspects of the affordable housing program. There was no periodic management review of the work performed by the program manager which would accomplish the same objective as a segregation of duties between two or more employees.

Using funds for unauthorized purposes jeopardizes future CDBG funding to the city. Allowing funds to be used for unauthorized purposes also limits the number of eligible low and moderate income citizens who are able to participate in the affordable housing program.

We recommend the city seek recovery of the unauthorized affordable housing program costs and audit/investigation costs from the program manager and their insurance bonding company, as appropriate. We further recommend the Washington State Office of the Attorney General and the Benton County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for city employees is as follows:

PENCO  
Errors and Omissions Coverage  
No. G812144  
\$1,000,000 with a \$50,000 self insured retention provision per occurrence  
August 1, 1994 to August 1, 1995

We also recommend the city:

- a. Adhere to all requirements of the affordable housing program and cease using funds for unauthorized purposes.
- b. Properly reflect the costs of the landscaping described above for the properties which actually received it.
- c. Implement a review of the work performed by the program manager to ensure compliance with criteria and policies.

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**Schedule Of Questioned Costs**

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<u>Grantor</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Compliance Finding Reference</u>
Department of Housing and Urban Development	14.218	\$1,145.37	Landscaping costs for ineligible property. See Finding 1.